

EXCISE



Department of State

TELEGRAM

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ACTION AF-04

INFO OCT-01 SS-14 ISO-00 INR-10 NSC-10 NSCE-00 EB-03 L-02

H-01 CIAE-00 CIEP-01 USTA-04 TRSE-00 SCEM-01 DRC-01

RSC-01 EUR-10 NEA-06 /049 W
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P R 020946Z OCT 73

FM AMEMBASSY TRIPOLI

TO SECSTATE WASHDC PRIORITY 0600

INFO AMEMBASSY BEIRUT

AMEMBASSY BONN

AMEMBASSY JIDDA

AMEMBASSY KUNAIT

AMEMBASSY LONDON

AMEMBASSY PARIS

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LINDIS

E.O. 11652: GDS

TAGS: ENRG, LY

SUBJ: OIL NATIONALIZATIONS: TALKS ON THE "TRUCE"

REF: STATE 190937

SUMMARY: THIS REPORT FOLLOWS UP ON THE SITUATION DESCRIBED REPTEL REGARDING THE "UNANNOUNCED TRUCE" BETWEEN THE LARG AND THE MAJOR OIL COMPANIES. THE COMPANIES' LATEST OFFER HAS BEEN REJECTED, BUT TALKS ARE CONTINUING. THERE IS NO AGREEMENT ON BASIC PRINCIPLES, BUT NEITHER IS THERE AN INDICATION THAT A COMPLETE IMPASSE IS IMMINENT.

1. WE UNDERSTAND LATEST COMPANY PROPOSALS WERE FOR COMPANIES TO LIFT 85 PERCENT OF THEIR CRUDE AS BEFORE, TO SELL 10 PERCENT ON BEHALF OF THE LARG, AND TO "GIVE" THE LARG THE REMAINING 5 PERCENT. THESE PROPOSALS WERE

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ENDORSE EXISTING MARKINGS. ☒

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PA or FOI EXEMPTIONS: *B1, A.9*

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REJECTED BY OIL MINISTER HABRIK AND U/S MUNTASSER IN TALKS OVER WEEKEND WITH COMPANIES' LOCAL MANAGERS. HOWEVER, THESE LARG OFFICIALS MADE COUNTER PROPOSALS, THE COMMON ELEMENTS OF WHICH WERE:

A) COMPANIES MUST NOT "CHASE" OIL LIFTED BY NATIONAL OIL COMPANY (NOC) FROM NATIONALIZED FIELDS.

B) "TRUCE" AND SUBSEQUENT NEGOTIATIONS MUST BE BASED UPON COMPANIES ACCEPTING THE SEPTEMBER 1 NATIONALIZATION DECREE AND THE PRINCIPLE THAT ANY DEAL FINALLY WORKED OUT MUST BE NO LESS FAVORABLE TO THE GOVERNMENT THAN THE OASIS PARTICIPATION AGREEMENT.

2. LOCAL COMPANY MANAGERS GENERALLY AGREE THAT COMPANIES HAVE FOUR OPTIONS FOR ACTION AT THIS TIME:

A) MAKE NO FURTHER OF THEIR PROTESTS AGAINST NOC LIFTINGS OF CRUDE FROM THEIR FIELDS, AND THE "CHASING" NOC LIFTED OIL IN THE COURTS.

B) SAME AS A) EXCEPT THAT COMPANIES WOULD QUIETLY DROP PURSUIT OF NOC LIFTED OIL SO LONG AS IT DOES NOT EXCEED 15 PERCENT. THAT FACT WOULD, HOWEVER, BE LEAKED TO A TRADE JOURNAL AND THUS BE CONVEYED TO THE LARG AS PART OF A TACIT UNDERSTANDING.

C) SAME AS B) EXCEPT THAT COMPANIES WOULD FORMALLY INFORM LARG OF WHAT THEIR DECISION IS.

D) PUBLICLY ANNOUNCE A TRUCE ON THE PURSUIT OF ANY HOT OIL (UP TO 51 PERCENT) PENDING THE OUTCOME OF NEGOTIATIONS (AS THE CONSORTIUM DID WITH IRAQ).

3. MANAGERS WERE DIVIDED ON WHICH OF THESE FOUR OPTIONS IS BEST COURSE. R 10 10 10
[REDACTED] HAVE OPTIONS, I.E. CONTINUED "CHASING", IS THE "ONLY

WAY". THEIR ARGUMENTS BASED ON LEGAL PROBLEMS SHOULD THEY APPEAR TO AGREE TO LARG ACTIONS BY NOT "CHASING"

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OIL. THEY ALSO REASON THAT NOC'S MARKET IS NOW RESTRICTED BY POTENTIAL PURCHASERS' FEAR OF LEGAL BATTLES WITH MAJORS OVER "HOT OIL". IF MAJORS CLEANSE NOC LIFTINGS BY NOT TAKING COURT ACTION AGAINST PURCHASERS, NOC OIL BECOMES VEY ATTRACTIVE AND MUCH MORE MARKETABLE. [REDACTED] FEEL OPTIONS B) AND C) OFFER SOME CHANCE OF SUCCESS FOR EVENTUAL LARG AGREEMENT. [REDACTED] MANAGER'S JUDGMENT INFLUENCED BY HIS LAWYER, WHO BELIEVES IT NOT NECESSARY TO "CHASE" EVERY TANKER OF NOC-LIFTED CRUDE TO ESTABLISH NON-ACCEPTANCE OF LARG ACTIONS. THEIR POSITION MAY ALSO REFLECT [REDACTED]

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[REDACTED] HIS ATTITUDE, THEREFORE, MAY NOT BE DECISIVE.

4. WHICHEVER COURSE MAJORS TAKE, AN IMMEDIATE CONFRONTATION SEEMS TO HAVE BEEN AVOIDED. IT MAY BE POSSIBLE TO PUT OFF THE FINAL CRUNCH UNTIL NOVEMBER 30, WHEN SEPTEMBER TAXES ARE DUE. AT THAT TIME BOTH SIDES WILL BE FORCED TO ACCOUNT FOR ALL THE OIL LIFTED FROM THE FIELDS. WILL IT BE MAJORS' OIL SUBJECT TO TAX, OR THE LARG'S? THE ANSWER TO THAT QUESTION WILL PROBABLY BE INFLUENCED BY THE STATE OF TALKS AT VIENNA AND IN THE GULF. NEITHER SIDE HERE HAS AN INTEREST IN FORCING A COMPLETE CONFRONTATION UNTIL THE SITUATION IN THE GULF IN PARTICULAR IS CLEARER. THE LOCAL MANAGERS BELIEVE THAT THE ONLY THING THAT WILL MOVE THE LARG TO FORCE A CONFRONTATION BEFORE NOVEMBER 30 WOULD BE THE MAJORS' POSSIBLE SUCCESSES IN THE COURTS SUFFICIENT TO SCARE OFF ALMOST ALL NOC CUSTOMERS. THEY DO NOT REALLY BELIEVE THAT WILL OCCUR.

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